CBI Economics

Economy in brief

For CEOs, FDs, and business leaders

Your monthly overview of the major trends impacting the UK's main business sectors

Employment
(Jun '20 – Aug '20)
75.6%

Unemployment
(Jun '20 – Aug '20)
4.5%

Productivity growth
(Output per hour, flash estimate for Q2 2020 on a year ago)
-3.0%

Real wage growth
(Jun '20 – Aug '20 on a year ago)
+0.1%

The UK economy has recovered more quickly than expected...

As the number of local lockdowns increases, it is worth highlighting the good news: the economy bounced back much more swiftly than expected over the summer. The determination of consumers to get out and spend in spite of the ebb and flow of lockdown has been phenomenal. And consumer spending has pretty much recovered to pre-COVID levels. Spending online has increased from 20% to 27% of spending, with consumers focused on food and household goods. And as of August, the economy had recovered a large proportion of the output lost in April, leaving it 9% smaller, nonetheless.

Barriers to growth are mounting...

But as we head into the winter months, the virus spread has increased, while the government's approach to managing the spread has evolved. We saw local lockdowns come into effect during the summer months, starting with Leicester and spreading across the north. This has since evolved again into a Tiered system for England, while Wales, Scotland and Northern Ireland have a system of local lockdowns accompanied by circuit breaks over half term.

It is clear that the government wants to limit the economic consequences of lockdowns by making them more location-specific, so enabling areas with lower infection rates greater freedom. Schools are largely being kept open and most businesses are able to operate (albeit with both demand and supply constraints), limiting the economic hit relative to April.
But the complexity that arises from this model makes it very difficult for businesses to predict demand. Meanwhile, the UK moves towards the end of the Brexit transition period with no deal still very much on the table. These significant sources of uncertainty continue to depress business spending plans.

Policy support for the economy remains significant and critical

As the government's management of COVID-19 has evolved, so has its support for the economy. The Winter Economy Plan saw the Job Retention Scheme (JRS) morph into the Job Support Scheme (JSS), accompanied by further support for the self-employed, an extension of the VAT cut for tourism and hospitality, delayed VAT payments, and extensions to the government-backed loan schemes. Since then, the JSS has been made more generous for those companies forced to close under lockdown, accompanied by increases to cash grants.

The Bank of England's support for the economy remains significant too. As well as maintaining low rates and quantitative easing, the Bank is currently exploring the scope for using negative interest rates as an additional policy tool. Very little is certain at the moment. But what we do know is that the government has to walk a careful line between containing the virus and managing the economic fallout.

Anna Leach
Deputy Chief Economist, CBI

Round-up of CBI September surveys

CBI growth indicator: **red**

-23%

Conditions continued to improve in the private sector in the three months to September as the rate of decline in activity eased for the third consecutive month. Within this, distribution activity stabilised whilst manufacturing, consumer services and business & professional services all recorded slower rates of decline in activity. Over the next three months, the pace of decline is expected to ease further.

Past three months*

Retail, wholesale and motor trades**	Business and professional services	Financial Services***	Consumer services	Manufacturing
-1%	-28%	+1%	-39%	-20%

Next three months*

Retail, wholesale and motor trades**	Business and professional services	Financial Services***	Consumer services	Manufacturing
-23%	-2%	+8%	-22%	-6%

Growth indicator: sector detail

Manufacturing output fell at a slower pace in the three months to September, and the speed of decline is expected to ease again in the next three months.

Distribution volumes stabilised in the three months to September, reflecting a return to growth in retail and motor trade sales volumes, and a slower decline in wholesale volumes. However, distribution activity is expected to fall again over the next three months: retailers and motor traders expect growth to re-enter negative territory while wholesalers expect a sharper fall.

Business volumes across the service sector fell at a slower pace in September than in the three months to August. The rate of decline in consumer services is expected to ease further in the next three months, with business & professional service volumes expected to stabilise.

**Figures are percentage balances — i.e. the difference between the % replying 'up' and the % replying 'down'.*
*** CBI Growth Indicator uses three-month-on-three-month growth, rather than year-on-year as used in the Distributive Trends Survey*
**** Financial services are not included in the composite; the latest survey was September 2020.*